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2016 INVESTMENT OUTLOOK
SURFING THE VALUE WAVE

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2016 OUTLOOK – SURFING THE VALUE WAVE

Windsurfer

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2016 EQUITY OUTLOOK

Kevin Gibson
Chief Investment Officer
Equity

Kevin oversees eight Equity focus teams and is also responsible for Japan 'Conservative Value' strategies.

He has over 27 years of financial industry experience, 20 years covering Japanese equities and joined Eastspring Investments in 2004.

Prior to Eastspring Investments, Kevin was the CIO of HSBC Asset Management (Japan). He also worked for Edinburgh Fund Managers Plc as the Head of Japanese Equities, and UBS Asset Management (formerly Phillips & Drew Fund Management) as a UK fund manager.

Kevin holds a MA from University of Aberdeen, UK.

ASIAN EQUITY SALE – THE NUMBERS DON'T LIE

Rising US interest rates were the Sword Of Damocles* for Asian equities in 2015.

An ever present threat hanging over equity markets which had the ability to swing seasoned investors' emotions from greed to fear with little more than a nuanced message from the US Federal Reserve Chairwoman, Janet Yellen. The Chinese authorities also gave us all a gentle reminder that trying to manipulate 'free' market mechanisms (their domestic equity market) to promote domestic growth is a high risk strategy laced with endless complexities and likely to end with more unintended losers than intended winners. These two events coupled with slowing Chinese growth triggered significant volatility in Asian equity markets throughout the year.

Managing our client's money through this environment was a technical and emotional challenge for even our most seasoned investors.

As always we resort to our value based investment process and the fundamental belief that emotional reactions and drivers of share prices create opportunities over the medium term for a disciplined investor.

*According to the legend 'Sword Of Damocles', pandering to his king, Dionysius, Damocles exclaimed that, as a great man of power and authority surrounded by magnificence, Dionysius was truly extremely fortunate. Dionysius then offered to switch places with Damocles, so that Damocles could taste that very fortune firsthand. Damocles quickly and eagerly accepted the king's proposal. Damocles sat down in the king's throne surrounded by every luxury, but Dionysius arranged that a huge sword should hang above the throne, held at the handle only by a single hair of a horse's tail. Damocles finally begged the king that he be allowed to depart because he no longer wanted to be so fortunate, realising that with great fortune and power comes also great responsibility (and danger).

Kitesurfer action, Pacific Ocean

US rate hike jitters throws up value opportunities in Asia

Addressing the issue of US interest rates first, it is clear to us that it is all about the timing of a modest increase. We see many commentators taking opposing views. One camp seems to think that increasing rates have a negative impact on US debt holders in Asia and thus puts pressure on growth. The other believes it will be a very moderate rate hike path, reflecting the steady improvement in global economic conditions. Both views have legs; however, the impact of this debate has been to create large valuation dispersions and emotional price reactions. As such we find stocks in the broad "cyclical interest rate sensitive" buckets being sold off regardless of fundamentals, creating very interesting medium term value opportunities.

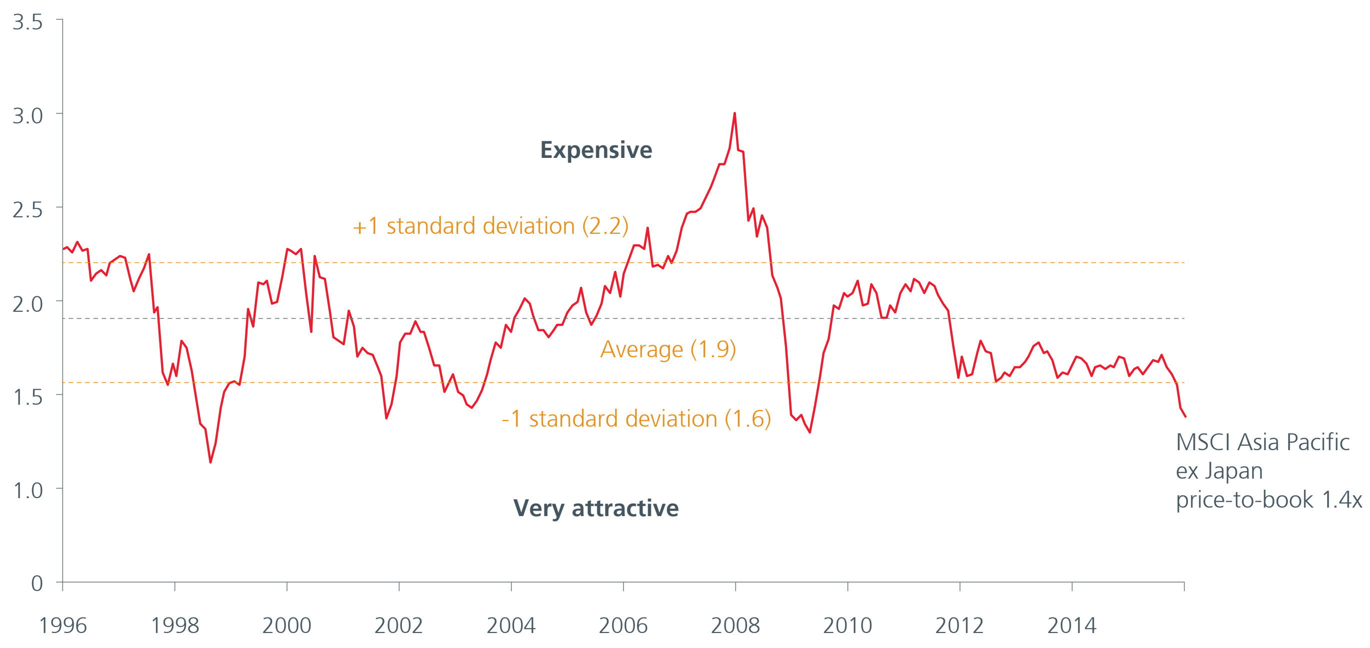
Not only are headline valuations in Asia very attractive on a long term perspective, the valuation dispersion between cyclicals and defensives is also at long term highs. This gives investors an opportunity to get into Asia at levels that have historically led to impressive gains over the medium term.

Selective value in China, supported by policy missteps

China's economic growth moderation dominated Asia's news headlines in 2015 (and is very likely to continue to do so in 2016). In late 2014, against a backdrop of moderating economic growth, the Chinese authorities implemented measures (which they had to reverse soon after) that caused a dramatic but short-lived boom and bust in Chinese equities. Although the primary impact was on the domestic market, the contagion effect was to take the rest of Asia with it; those markets (Hong Kong, Australia and Singapore) with close ties to China fell the most.

Investors have now priced in significant value destruction in China and the authorities have helped to inject fear and volatility into equity prices. This combination has pushed MSCI China to a price-to-book ratio of 1.2x (as at October 2015) and gives us some very interesting stock specific opportunities to take advantage of. We have found such opportunities in Chinese banks, consumer discretionary, property and energy names, where sustainable earnings have been undervalued. We do not take a strong view on macroeconomic conditions but we note that China's government continues to support the transition from an investment driven economy to a consumption driven one. We believe we may see further stimulus, if required, to smooth this transition into 2016.

Fig.1. Asia Pacific ex Japan trailing price-to-book (x)



Source: MSCI, Bloomberg, Eastspring Investments, as at 30 September 2015.

2016 EQUITY OUTLOOK

Aussie banks moving into good value territory

Chinese slower growth has impacted other countries; Australia for one has had to manage the consequences of the unwinding of the commodity super-cycle. The mining sector has collapsed leading to a deteriorating employment picture and the Australian dollar has fallen dramatically versus the US dollar. Similar to China, Australia is managing the transition to a consumption / services driven economy rather than one driven by its natural resources.

The medium term outlook for equities is more constructive particularly as valuations have fallen to more attractive levels over the last 12 months. Having been the expensive darlings of Asia we have been underweight the financial sector for some time but we are now finding that Australian banks are beginning to look interesting again. With recent actions to shore up their balance sheets, dividend yields above 6%, attractive valuations and high quality businesses we believe this may be a good opportunity to add some exposure here into 2016.

Lower commodity prices bodes well for Asia, a net commodity importer

Lower commodity prices have an ambiguous effect on Asian economies and its companies. There are winners and losers; companies that tend to benefit include transportation related sectors, utilities and consumer staples while those in the commodity space like coal, oil metals and mining have seen revenue dips. But there appears to be little evidence to write off all commodity producers and to assume the world will stop demanding any commodities. Such an extreme view once again offers opportunities to pick the stocks where valuations have fallen too far and do not reflect their medium term prospects.

A strong US dollar fuels undue concerns over Asia's US dollar debt

The strong US dollar has also taken its toll on Asia. Asian currencies have been universally weak and volatile relative to the US dollar, with the exception of those fixed / managed such as the Hong Kong dollar. This has raised many concerns particularly for those countries and companies laden with US dollar denominated debt. Luckily Asia is not as reliant on US dollar debt nor as heavily geared as was the case in the past. Nonetheless we have been relatively well positioned to avoid those companies heavily laden with US dollar debt. Looking towards 2016 we will continue to closely monitor those companies with US dollar debt exposures, particularly those operating within floating exchange rate regimes.

2015 was a tough year for value investors such as Eastspring

Many investors found solace in the few growth / momentum stocks typically found in defensive sectors which drove their short-term relative outperformance. However, we believe we have taken opportunities to build portfolios of attractively valued investment opportunities, which on a medium term investment horizon will outperform.

What's in store for 2016?

2016 is also set to be a busy year in Asia's political calendar with major elections to be held in Hong Kong, Philippines, South Korea, Taiwan, and Australia. While we have no strong views on the election outcomes, such political events tend to encourage investors to make emotional investment decisions on unrelated political data points and in the process become another driver of opportunities in 2016.

In summary, Asia's headline valuations don't lie – Asia ex Japan equities are on sale right now. But even more exciting to the team at Eastspring is the huge difference we see between Asian stock prices, offering a value oriented stock picker even better opportunities. We strongly believe that investing in Asia at this point can deliver attractive returns for the medium term investor.

2016 JAPAN EQUITY OUTLOOK

Dean Cashman
Team Leader and Portfolio Manager
Japan Equity

Dean is team Leader of Japan Equity and is also responsible for 'Focused Value' strategies.

He joined Eastspring Investments in 2004 and has more than 27 years of financial industry experience.

Dean has worked for BT Fund Managers (Sydney) as the Head of Japanese equities. He holds a B.Ec from University of Queensland, Australia (1987).

IMPROVING CORPORATE HEALTH OFFERS A SIGNIFICANT OPPORTUNITY IN JAPAN

The market's entrenched negative views on Japan helped to drive share prices to episodically cheap levels some time ago and valuations in many cases remain supportive.

Nowadays, these negative views are being challenged on the back of meaningful change. Despite market recognition, the ongoing acceleration of corporate restructuring and delivered earnings have yet to be priced into valuations for many companies in Japan.

Improving trend fundamentals in Japan are underappreciated

In the midst of a difficult market environment, corporates in Japan have undergone structural change which has been accelerating since 2008. This positive change in corporate behaviour has also been supportive for delivered earnings. For example, since 2013 there have been eleven straight quarters of upwardly revised earnings, each time beating the market's expectations.

In aggregate, the long process of balance sheet repair in Japan is well and truly over. Arguably for many companies, balance sheet health is "too strong" which points to a level of inefficiency. In fact some companies are now focused on improved capital efficiency, generating significant cash flow, and applying renewed balance sheet strength to pursue sensible expansion strategies.

Surfing with the moon and Mount Fuji, Japan

Inflation expectations in Japan increase domestic investors' required returns

Since the introduction of Abe's reflationary policies, we have observed a shift in broad market expectations of mild deflation to expectations for inflation in Japan. A change in this economic imperative for domestic investors has increased their required returns amid even a mild inflationary environment. As a result, domestic investors are making use of significant cash savings (households) and also selling Japanese Government Bonds (institutions) in order to buy more equities.

Increased ownership of equities has sparked a rising focus on governance from domestic investors in order to "unlock value". Investor engagement with companies is causing the latter to focus on improving capital efficiency, increasing dividends as well as share buybacks to improve total returns.

Unlocking value in Japan

Encouragingly for shareholders, more companies are returning value in the form of dividends and buybacks. There is a large scope for improvement but this change in corporate attitudes is setting a new tone for the Japanese corporate landscape.

In addition, the introduction of the new Corporate Governance Code may encourage a move toward higher payout ratios that started in 2014. There is admittedly ample scope for payouts to improve. However this is an example of positive structural change we observe in corporate behaviour which is supportive for sustainability of returns.

Furthermore, over 100 domestic and foreign institutional investors have signed up to the Japan stewardship code. This represents investor commitment to active shareholder engagement and a pursuit of best practice in governance behaviour for companies.

Unlocking balance sheet cash is seen as a potential value driver: in 2014, total share buybacks were Japanese Yen 4.2 trillion, up 86% from 2013, and the trend has continued into 2015. In the past 12 months to 10 August 2015, companies have announced Japanese Yen 4.5 trillion in buybacks, a six-year high and equivalent to a 0.75% buyback yield for the TOPIX (Tokyo Stock Price Index).

Where are trend valuation signals taking us?

There are unexpected investment opportunities in Japan - if you are willing to avoid the herd, let cheap share prices take you to opportunities, confirm that value exists and be patient.

We have found, on a stock by stock basis, high conviction names with strong valuation signals across much of the market. There are names in major banks, insurance companies, consumer electronics and information technology, specialist materials and industrials, auto–related as well as domestic names.

Market overreaction to news flow can drive mispricing

The market obsesses over recent news flow on sector or global macroeconomic cycle forecasts. We let cheap share prices take us to opportunities.

The future is inherently uncertain, and we ensure that there is a significant margin of safety in the valuation for every investment. This helps to mitigate the downside risk in the stocks we invest in compared to other expensively valued stocks in the market.

We avoid expensively valued names that are loved by the market.

In aggregate we are finding either insufficient conviction or unattractive valuations in the more defensive stocks including consumer staples, pharmaceuticals, railways and utilities.

UP 86%

from 2013, total share buybacks, JPY 4.2 trillion, in 2014 – the trend has continued into 2015

JPY4.5 TRILLION

in buybacks, in the past 12 months to 10 August 2015

0.75%

buyback yield for the TOPIX in the past 12 months to 10 August 2015, six-year high

What's in store for 2016?

The game plan for 2016 is the same one we've been successfully executing for over ten years.

There are no bold forecasts to be made. We will leave you with a quote from Warren Buffett, which reflects our sentiments on the subject of contrarian investing.

"Be fearful when others are greedy and greedy when others are fearful".

Daring to be different can sometimes be painful, but we think it offers the greatest rewards.

Ooi Boon Peng
Chief Investment Officer
Fixed Income

Boon Peng is responsible for overseeing the management of the firm's fixed income assets. He also manages Eastspring's Global Bond, Hong Kong and Japan bond portfolios.

Prior to joining Eastspring, Boon Peng was Chief Investment Officer and Executive Director at UOB Asset Management, Alternative Investments, and prior to that he was Head of Fixed Income at Fullerton Fund Management Company. He also spent 15 years of his career with the Monetary Authority of Singapore (MAS).

Boon Peng has 28 years of experience in investment and foreign reserves management and holds a Bachelor of Science (Building) degree from National University of Singapore and is a Chartered Financial Analyst.

MODERATE VALUE AMIDST SPECTRE OF RATE HIKES

Market outcomes have tended to surprise its players. As it turns out, 2015 was a year of volatility and general pessimism.

Stock markets began on a positive note for the first half of the year, but sentiment took a sharp turnaround in the third quarter on quite sudden concerns over emerging markets (EM), the deceleration in US economic strength and the downturn in commodity prices. Investors were particularly worried over an EM growth crisis, which was exacerbated by a number of China's policy missteps. Worries over Latam were even greater, given the weak commodity price outlook and Brazil's poor fundamentals.

In our 2015 outlook piece, we had recognised that EM Asia growth prospects were delicate, particularly over China's economy, expecting that this would contribute to some Asian market volatility. But the magnitude of the market movements was not anticipated. We also held to a "dovish leaning on global monetary policy". We had expected the first Federal Reserve (Fed) funds rate hike for this cycle to take place in 4Q 2015. This remained at the point of writing (late October 2015) a distinct possibility. For much of 2015, US Treasury yields have stayed broadly range bound, with an easier bias.

US and Euro zone growth recovery appears intact

We now begin the challenge of positioning our investment portfolios for 2016. While we note the prevailing market bearish sentiments, we are apt to take a more optimistic view.

Wave splash within typhoon, Hachijō-jima island, Japan

2016 FIXED INCOME OUTLOOK

2016 FIXED INCOME OUTLOOK

The trajectory of US and Eurozone growth recovery is intact. The US has been generating close to 200,000 jobs so far in 2015, steadily removing the labour market slack and contributing to the improvements in consumer sentiment and helping the US housing market recovery. Eurozone should also see growth at a fairly healthy clip for 2016, evident in the purchasing manager index readings and strengthening loan growth.

Concerns over EM Asia continue to emanate mainly from China. We anticipate the ongoing stabilisation of China's property market, a moderately expansionary fiscal policy and resilience in consumer spending, enabling the economy to see growth strengthening into 2016. Our confidence in Asia is supported by the International Monetary Fund's (IMF) own analysis. In its October 2015 World Economic Outlook report, the IMF produced its nearer term analysis of recession and deflation risks for various regions. Notably, EM Asia has a much lower probability of experiencing either of these two undesirable outcomes (refer to Fig.2).

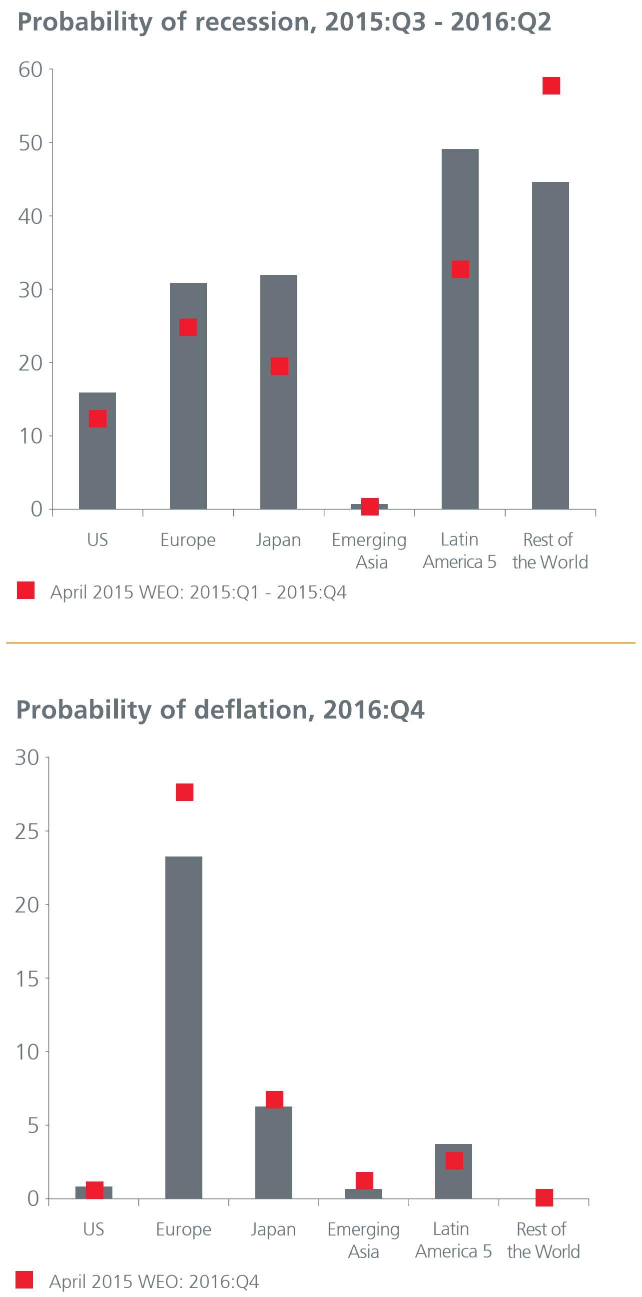
EM Asia backed by positive fundamentals

What has been ailing the global capital and, particularly the EM markets has been the weak oil and commodity price outlook. Another significant factor has been the considerable build-up in debt globally. Depressed energy prices, we feel cannot be sustained for an extended period, as the cheap levels should invigorate consumption and reduce production levels. If our expectations about a global recovery come to pass, we should see global growth strengthening further and commodity prices seeing a decided turnaround. This could usher in a six to 12 month recovery period for EM Asia's bond markets and currencies after being battered in 2015.

This would indeed surprise critics of Asia's high credit growth over the past 4 to 5 years; non-financial, private sector credit in Asia ex-Japan had reached about 144% of Gross Domestic Product (GDP) in the 3Q2015, far surpassing the 83% in 1996, just before the advent of the Asian Financial Crisis (AFC). By this measure, critics fear a repeat of the AFC. We view the situation in EM Asia to be far stronger now as the countries' external stability is anchored by high foreign reserves and healthy balance-of-payments. Internal stability, on the other hand, should be maintained with sound banking system, a functioning bond market and stable fiscal position.

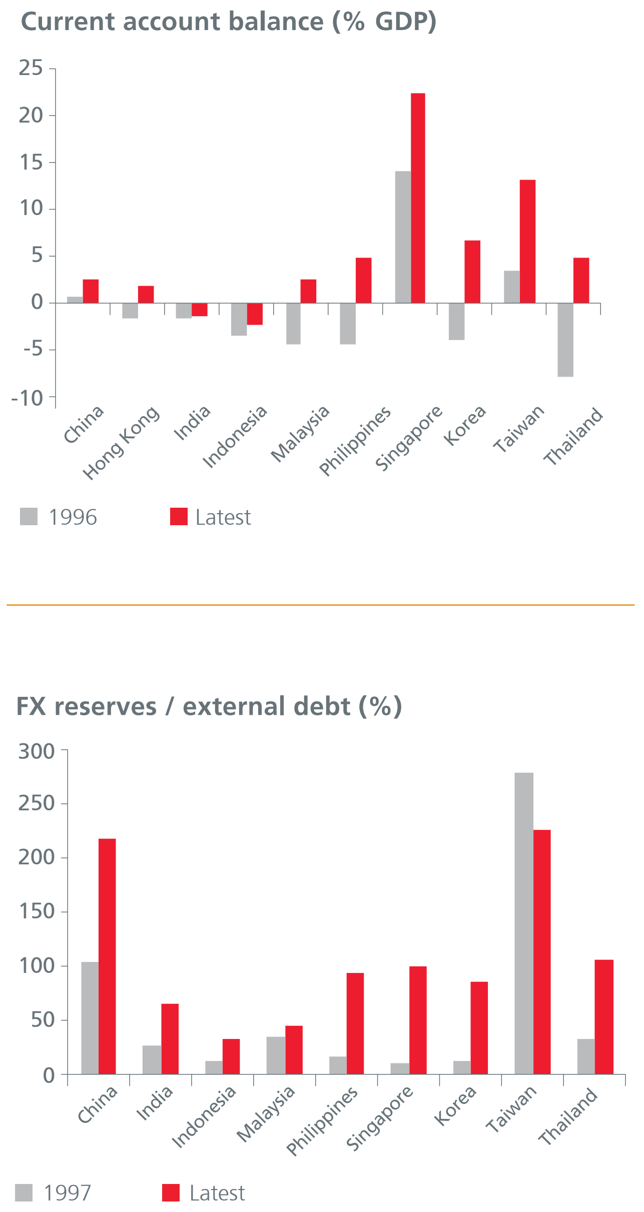
With the gradual unwind of the Fed's quantitative easing (QE) and the general economic slowdown, EM credit growth should decelerate. This should bring the debt-to-GDP ratios to a much more moderate level. Such a development could prove financially sustainable for EM Asia which is also backed by other positive fundamentals (refer to Fig.3).

Fig.2. IMF World economic – October 2015. Assessment of recession and deflation risk



Source IMF Staff estimates, World Economic Outlook (WEO) Report October 2015.

Fig.3.



Source: Top chart – BIS, World Bank, CEIC, Nomura. Note: "Latest" refers to the latest available data as at 24 August 2015: for current account balance Q2 2015 for all countries except Hong Kong, India, Philippines and Korea (Q1). Bottom chart – Haver Analytics, CEIC and Barclays Research, as at August/September 2015.

What's in store for 2016?

In 2016, we feel the Fed can afford to pick up the pace of its tightening, that could bring its funds rate to 1-1.25% by the year-end. Market pricing, as at late October 2015, is anticipating a Fed funds rate of 0.65-0.75%. Our conviction for the steady reduction in labour market slack should cause wage inflation to accelerate, prompting a faster pace of Fed rate normalisation. But even at our projected Fed tightening trajectory, it is still a fairly moderate gradient of rate increases, which the credit and stock markets can absorb albeit with some near term volatility.

We expect credits to offer moderate value given the spread widening in 3Q2015. However, as monetary conditions become less accommodative in the US, credit spreads are unlikely to be compressed markedly while the US dollar will likely be underpinned. The greenback is now at expensive levels given that it has rallied about 17% over the past 2 years. Against EM Asia currencies, where there is some return to "risk-seeking" by investors, and given that Asian currencies are historically at cheaper valuations, we do expect Asian currencies to end 2016 with moderate 2-4% gains versus the US dollar.

Even as we offer a somewhat optimistic view for Asian credits, currencies and local bond markets, we do not want to make light of the global issues. Fragilities remain. The underlying Eurozone and Greek problems have yet to be resolved while the slow wage increases in the developed world could be an indication of these economies lacking vibrancy. We are also cognisant of the limited monetary and fiscal tools available for governments to handle another financial crisis.

We view that current fears have been priced into the financial markets and thus reduces the likelihood of a market crisis. Moreover the US economic and financial rehabilitation are well advanced and a stronger US economic expansion could come in 2016. There are also positive signs of a turnaround in the developed and EM Asia economies.

The 2016 outcome could thus see stock equity and credit markets performing well as investors scale this "wall of worry".

Kelvin Blacklock
Chief Investment Officer
Global Asset Allocation

Kelvin is responsible for the Global Asset Allocation team, based in Singapore at Eastspring Investments.

He has a total of 25 years investment experience across a wide range of asset classes and markets. Having lived in Asia for the last 18 years, he brings a deep understanding of the region and the issues of investing in these markets.

Over his 14 year tenure at Eastspring, Kelvin has had responsibility for the fixed income team, derivatives and structured products as well as alternative assets.

Prior to joining Eastspring, Kelvin worked for 11 years at Schroder Investment Management, in various roles within the global fixed income team based in London, Hong Kong and Singapore.

He holds a Bachelor of Science (First Class Hons) in Mathematical Sciences from University of Strathclyde, Glasgow, Scotland (1989). He has also earned a Charted Financial Analyst (UK) designation.

CHALLENGING CYCLICAL PROFIT OUTLOOK AND THE IMPLICATIONS FOR INVESTORS

The past year has been a relatively challenging one for investors.

At the time of writing (October 2015), most global equity markets have declined on the year, while many emerging markets (EM) have fallen by more than 10% in US dollar terms. The poor returns were due to the growth scare in China and EM that triggered a panic in risk assets through August-October 2015 and sharp declines in commodities and commodity linked markets over the year. Sadly, there has also been very little diversification for investors. Returns on sovereign bonds and most credit markets have been equally dismal.

Looking forward, the key question for investors is whether weakness in global growth will develop into a genuine profit recession, or, whether the episode has reduced valuations to the point where investors ought to increase the risk allocation in portfolios?

There are four key points to consider:

Global equities, while not cheap, still offer better value than bonds

First, in contrast to the episode in 2012, global equities are currently not that cheap in aggregate on an absolute basis. The MSCI World Index earnings yield (the inverse of the price-to-earnings ratio and a proxy for the expected real return) trades at 6.8% compared to over 11% in 2012 (refer to Fig.4). To be fair, the outright valuation of Asia and EM is more attractive at 9% and 9.8% respectively. On the whole, equities are not that cheap in absolute terms. However, the earnings yield on global equities is still considerably more attractive relative to the yield on a basket of sovereign bonds (1.1%).


2016 GLOBAL ASSET ALLOCATION OUTLOOK

Beach and sunbeam, Kanagawa Prefecture, Honshu, Japan

Keep an eye on the profit cycle

Second, equity valuation is always conditional on earnings or profits. Estimated earnings on the MSCI World Index are now falling relative to one year ago and are the weakest since the last recession (refer to Fig.5). Our fear is that the correction in global equities reflects a genuine deterioration in the profit cycle. While the weakness at a global aggregate level probably reflects the cyclical deterioration in manufacturing and trade, it is possible that there are also structural conditions weighing on profits in select markets. If profits keep falling, world equity markets will probably perform poorly from here.

EM weakness may linger

Third, this trend of underperformance in EM is not new and has been underway since 2011. It probably reflects the secular slowdown in China's trend growth and shift in growth composition from manufacturing and infrastructure to services. As a result, there has been reduced demand for commodities, basic materials and capital goods that has been exacerbated by the dramatic increase or excess supply in these goods over the past five years. The ongoing weakness in global manufacturing, trade, Asian exports, and commodity and producer prices is evidence of this trend. While this condition is well appreciated, our fear is that it is legitimate and not fully played out nor priced into all related assets (refer to Fig.6).

US and Europe show firmer growth trends

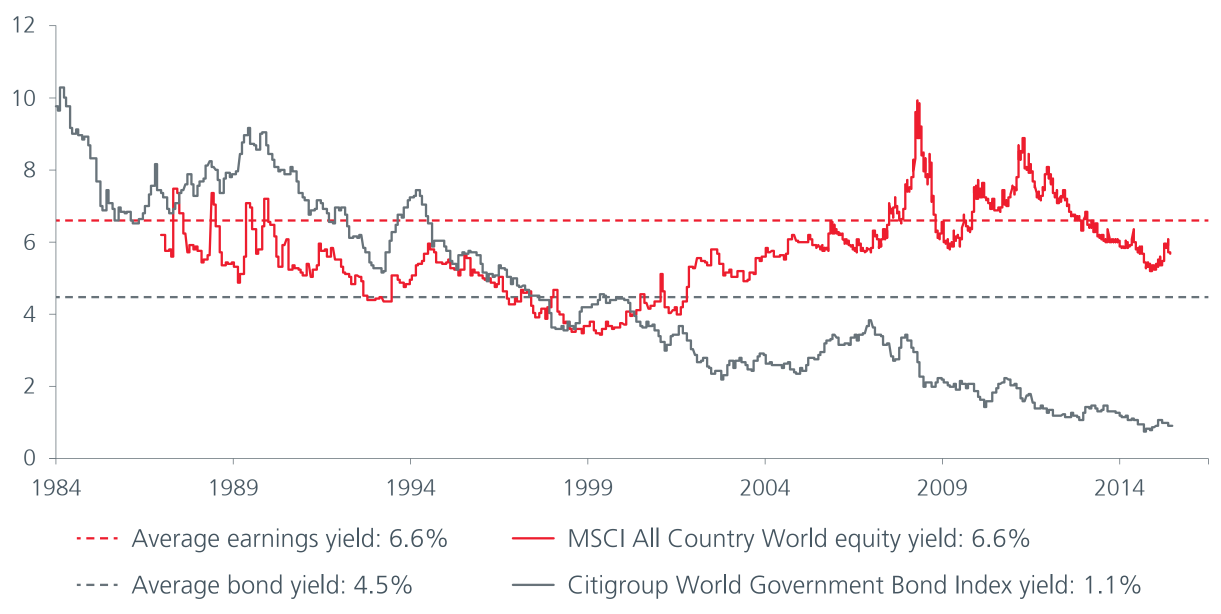
Fourth, the good news is that growth in the domestic US economy and Europe remains firm. The US unemployment rate is near full employment (5.1%) and housing activity is contributing to growth. In Europe, loan growth is expanding for the first time in ten years. At the same time, low headline and core inflation is likely to maintain interest rates at extremely accommodative levels.

High yields and EM could face more challenging times

The challenges noted above have also been evident in the credit markets with widening high yield spreads in the US corporate bond market largely as the energy sector got sold off. That sector represents around 17% of the US high yield debt market. While high yield spreads offer above average levels of spread (or risk) compensation, a genuine profit recession would be challenging for the sector's fundamentals. A rise in default rates is also plausible next year.

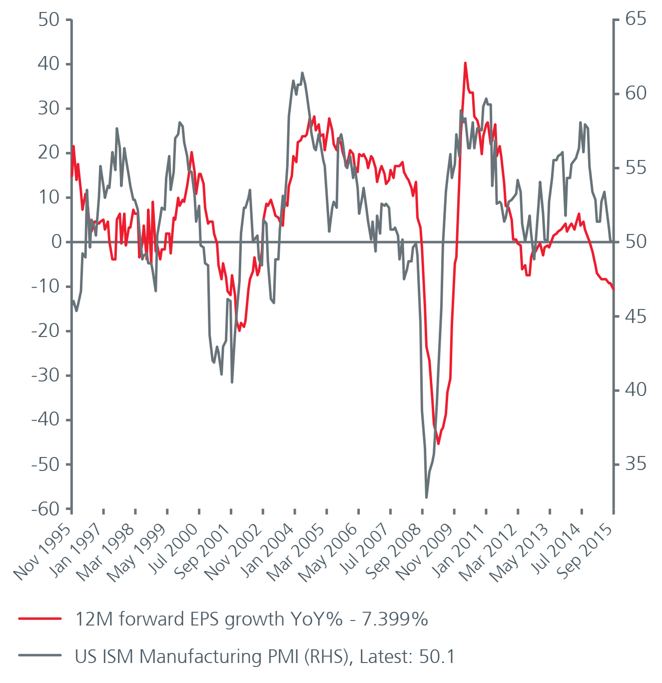
Similarly, the weakness in commodity prices and the US dollar strength has exacerbated and contributed to the material declines in commodity linked EM currencies; a number are trading at 2002 trough levels in nominal terms and while external sovereign debt and imbalances are lower than in the past, private sector credit has increased since the last crisis and might contribute to a challenging phase for EM next year if US dollar strength and/or commodity price weakness persists.

Fig.4. World equity risk premium (%)



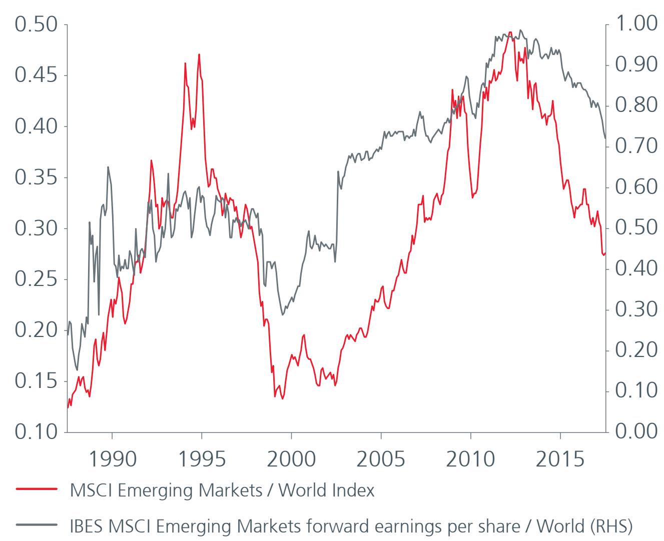
Source: Thomson Routers Datastream, as at 4 November 2015.

Fig.5. MSCI All Country World forward earnings per share growth year on year % vs US Institute for Supply Management



Source: Thomson Routers Datastream, as at 3 October 2015.

Fig.6. MSCI Emerging Market Index and forward earnings per share relative to World



Source: Thomson Routers Datastream, as at 1 October 2015.

What's in store for 2016?

Challenges warrant a neutral outlook. We enter 2016 with a modest overweight to equities relative to fixed income. Global equities offer only modest outright valuation support relative to history with a 6.8% earnings yield.

On the positive side, the gap between the earnings yield on equities and the yield on sovereign bonds suggests that equities should outperform sovereign bonds over the medium term.

Hence for multi asset funds we have a modest overview to equities from bonds.

Within equities, while the valuation in Asia and EM equities is becoming attractive, we suspect that this partly reflects a genuine deterioration in trend profits that might still not be fully priced. We have a modest preference for high yield credit based on credit risk compensation. Given the move seen in the US dollar over the past year and the undervaluation of many EM currencies, we have a neutral outlook in 2016. We remain very selective in EM sovereign credit.

EASTSPRING'S KEY TO SUCCESSFUL INVESTING

2016 INVESTMENT OUTLOOK – SURFING THE VALUE WAVE

Don't let the market noise anchor you down

Investors focussed on the ever changing daily macroeconomic news flow may find it a challenge to identify important information to form their investment decisions:

- What is an appropriate response to swings in market sentiment around concerns for the global cycle and the issues facing China?
- What is the US Federal Reserve's next step? What about the effects of Abe's reflationary policies? How should we position for the future?

Too often we observe significant weight being applied to almost irrelevant information in decision making.

What is in a price?

We argue it is almost impossible to consistently forecast the effects of short term news flow on markets. Forecasting also relies on an ability to "time the market" in a world that holds an uncertain future.

So why bother trying to follow themes or time markets? Instead we choose to let share prices lead us to the most attractive investment opportunities, and then be patient.

Avoid themes and the "herd mentality"

The problem with this investment thesis is that many market participants are willing to handsomely overpay for comfort from perceived earnings certainty. This is something we avoid at all costs.

Overpaying for shorter term certainty and a herd-like focus on shorter term macroeconomic news flow often serves to harm investors' longer term returns. Where is the value in this?

In order to outperform the market, do something different!

The market's narrow focus on themes can leave behind a long tail of unloved, out of favour and very cheap names for contrarian investors seeking out value. These opportunities are best identified and exploited on a company by company basis.

History shows that investors willing to exploit shorter term market anomalies by applying a disciplined long term valuation approach will be amply compensated for their patience.

Where should contrarian value investors look?

Start by focusing on the extremes of valuation and there are plenty of opportunities to exploit. Starting valuations help to determine the likely upside potential for an investment. The more mispriced, the higher the upside potential may be.

Confirming that value exists is vital. The value of the company may be determined by the returns the company can generate on a sustainable long-term basis.

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